

**SOCIAL SECURITY'S SOLVENCY CHALLENGE:  
STATUS OF THE SOCIAL SECURITY TRUST FUNDS**

---

**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON SOCIAL SECURITY  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED FIFTEENTH CONGRESS  
FIRST SESSION

\_\_\_\_\_  
JULY 14, 2017  
\_\_\_\_\_

**Serial No. 115–SS05**

\_\_\_\_\_

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PUBLISHING OFFICE

33–480

WASHINGTON : 2019

## **COMMITTEE ON WAYS AND MEANS**

KEVIN BRADY, Texas, *Chairman*

SAM JOHNSON, Texas  
DEVIN NUNES, California  
PATRICK J. TIBERI, Ohio  
DAVID G. REICHERT, Washington  
PETER J. ROSKAM, Illinois  
VERN BUCHANAN, Florida  
ADRIAN SMITH, Nebraska  
LYNN JENKINS, Kansas  
ERIK PAULSEN, Minnesota  
KENNY MARCHANT, Texas  
DIANE BLACK, Tennessee  
TOM REED, New York  
MIKE KELLY, Pennsylvania  
JIM RENACCI, Ohio  
PAT MEEHAN, Pennsylvania  
KRISTI NOEM, South Dakota  
GEORGE HOLDING, North Carolina  
JASON SMITH, Missouri  
TOM RICE, South Carolina  
DAVID SCHWEIKERT, Arizona  
JACKIE WALORSKI, Indiana  
CARLOS CURBELO, Florida  
MIKE BISHOP, Michigan

RICHARD E. NEAL, Massachusetts  
SANDER M. LEVIN, Michigan  
JOHN LEWIS, Georgia  
LLOYD DOGGETT, Texas  
MIKE THOMPSON, California  
JOHN B. LARSON, Connecticut  
EARL BLUMENAUER, Oregon  
RON KIND, Wisconsin  
BILL PASCRELL, JR., New Jersey  
JOSEPH CROWLEY, New York  
DANNY DAVIS, Illinois  
LINDA SANCHEZ, California  
BRIAN HIGGINS, New York  
TERRI SEWELL, Alabama  
SUZAN DELBENE, Washington  
JUDY CHU, California

DAVID STEWART, *Staff Director*

BRANDON CASEY, *Minority Chief Counsel*

---

## **SUBCOMMITTEE ON SOCIAL SECURITY**

SAM JOHNSON, Texas, *Chairman*

TOM RICE, South Carolina  
DAVID SCHWEIKERT, Arizona  
VERN BUCHANAN, Florida  
MIKE KELLY, Pennsylvania  
JIM RENACCI, Ohio  
JASON SMITH, Missouri

JOHN B. LARSON, Connecticut  
BILL PASCRELL, JR., New Jersey  
JOSEPH CROWLEY, New York  
LINDA SANCHEZ, California

## CONTENTS

---

Advisory of July 14, 2017, announcing the hearing .....	Page 2
WITNESS	
Stephen C. Goss, Chief Actuary, Social Security Administration .....	5
QUESTIONS FOR THE RECORD	
Questions submitted by the Subcommittee on Social Security of the Committee on Ways and Means to Stephen C. Goss, Chief Actuary, Social Security Administration .....	30
Questions submitted by Representative Jim Renacci, of Ohio, to Stephen C. Goss, Chief Actuary, Social Security Administration .....	31
SUBMISSIONS FOR THE RECORD	
Michael G. Bindner, Center for Fiscal Equity .....	33
David Barnes, Director of Policy Engagement, Generation Opportunity .....	39
Strengthen Social Security Coalition .....	41



**SOCIAL SECURITY'S SOLVENCY CHALLENGE:  
STATUS OF THE SOCIAL SECURITY  
TRUST FUNDS**

---

**FRIDAY, JULY 14, 2017**

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
SUBCOMMITTEE ON SOCIAL SECURITY,  
*Washington, DC.*

The Subcommittee met, pursuant to call, at 9:56 a.m., in Room 2020, Rayburn House Office Building, Hon. Sam Johnson [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

# ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

## SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE  
Friday, July 14, 2017  
SS-05

CONTACT: (202) 225-1721

### **Chairman Johnson Announces Hearing on Social Security's Solvency Challenge: Status of the Social Security Trust Funds**

**\* NEW TIME \***

**The new hearing start time is 10:00 a.m. as noted below.  
All other details remain unchanged.**

House Ways and Means Social Security Subcommittee Chairman Sam Johnson (R-TX), announced today that the Subcommittee will hold a hearing entitled "Social Security's Solvency Challenge: Status of the Social Security Trust Funds." The hearing will focus on the status of the Federal Old-Age and Survivors Insurance (OASI) and Federal Disability Insurance (DI) Trust Funds and the effects of delaying action to address Social Security's future insolvency. **The hearing will take place on Friday, July 14, 2017 in room 2020 of the Rayburn House Office Building, beginning at 10:00 a.m.**

In view of the limited time to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

#### **DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "[Click here to provide a submission for the record.](#)" Once you have followed the on-line instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Friday, July 28, 2017.** For questions, or if you encounter technical problems, please call (202) 225-3625.

#### **FORMATTING REQUIREMENTS:**

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TDD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

**Note:** All Committee advisories and news releases are available at <http://www.waysandmeans.house.gov/>

---

Chairman JOHNSON. Good morning. I have decided that we are going to start the hearing early, and since you all are here, is that all right with you?

Mr. GOSS. That sounds just great.

Chairman JOHNSON. We all know Social Security provides important retirement and disability benefits that millions of Americans rely on. Yet, as we will hear again today, Congress needs to act so we can be sure that those benefits will be there for our children and our grandchildren, just like they are for seniors and individuals with disabilities today.

Today, we will hear from the Social Security Chief Actuary about the findings in this year's report. And while the report had some good news for the Disability Insurance program, make no mistake, Social Security faces serious challenges. The Trustees Report tells us the Social Security trust funds will be exhausted in 2034. At that point, individuals face across the board benefits cuts if Congress doesn't act.

Once the trust funds are exhausted, Social Security will only be able to pay 77 percent of promised benefits. That is wrong and simply unacceptable.

The Trustees also tell us today it would take \$12.5 trillion to make Social Security solvent over the next 75 years. That is not a little number. And the number gets bigger every year. In 2011, when I first held a hearing on a Trustees Report, it was \$6.5 trillion.

Fixing Social Security will require tough choices, choices that will affect the lives of millions of Americans, and I can tell you, they aren't easy choices. And while we all may have differing views on how to solve it, not talking about the problem won't make it go away. And if we wait until the trust funds are exhausted, the choices become more difficult and some of the options won't be on the table any longer.

Last December, I introduced my plan to fix Social Security. My good friend from Connecticut, Mr. Larson, also has a plan. And I appreciate my friend's recognition that Social Security is in trouble and we need to fix it. While our plans are very different, they both fix Social Security permanently. I believe any plan to fix Social Security should do so permanently. Social Security is too important not to give workers and their families that certainty. It is not

enough to just push out the trust funds' exhaustion date by a few years. When Congress acts, we need to be sure we finally got Social Security on the right track for good.

In addition, to permanently fix the program, I believe Social Security solvency should meet the following principles: First, it should modernize Social Security to reflect today's workers and their families. Second, it should reward hard work. Third, it should protect the most vulnerable. And, lastly, it should improve retirement security. Millions of Americans rely on this important program now, and millions more pay in with the expectation of future benefits.

Congress has a responsibility to the American people to make sure that our children and grandchildren can count on Social Security, just like seniors and individuals with disabilities do today. We need to take this responsibility seriously, and that is why this Subcommittee will continue to talk about Social Security's solvency and the cost of delay. Americans want, need and deserve nothing less.

I now recognize Mr. Larson for his opening statement.

Mr. LARSON. Well, thank you, Mr. Chairman. And we are in concurrence. We could give one another's speeches, I think, at this particular point. As we like to say often, Congress should be about the vitality of ideas. And I commend the Chairman because he has been a stalwart in making sure that we address this issue. And at this point, his last term in Congress, we are especially heartened by the fact of his determination to put forward legislation that will meet the test of the 75-year requirement.

While the news that we receive today is better than some might have expected, especially on the disability side, it does remain, as the Chairman has pointed out, our desire, and I believe that to be true of everybody on the Committee, to reach a conclusion where we make this solvent into the future for all generations. And to the Chairman's point, we do have plans, competing, but with the general concept in mind that we want to make Social Security solvent into the next century.

We believe that we have to enhance Social Security along the way. We think it is unacceptable for many people, especially working women, that they retire into poverty. We think it unacceptable that our COLAs have been determined by a CPI that doesn't actually reflect what the real costs the elderly incur are. We think it unacceptable that we haven't really changed Social Security since 1983. It is an insurance program. Have any of your insurance premiums gone up since 1983? Of course they have. And so, we think that it is vitally important to make sure, especially with the solvency, that we look at this and combine both the old-age and retirement and disability together, and then provide the actuarial assistance to make sure the program is solvent. We believe to do that, we have to increase the contribution to the fund. These are difficult choices, as Mr. Johnson has indicated, but if you phase that in over 25 years, we would, in essence, be doing what should have been done in 1983; indexing this in a way so that there were gradually, as it kept pace with the actuarial concerns of a population, the modest increases that would be necessary. This takes us well beyond the 75-year period by following these adjustments, and



also, making clear that we need to enhance the program on behalf of so many beneficiaries.

We also believe that many seniors who find themselves in the workforce deserve a tax break, and by indexing this appropriately from what was done in 1983 to, as Mr. Johnson says, what needs to be done today to modernize it, we can accomplish that. We have a lot of talent on this Committee, and many individuals, as we listen to some of the concerns of Social Security, and my colleagues on the other side have been leaders in talking about the technological changes that would be needed that also could produce from antiquated systems that don't provide the best up-to-date information that we could have. So I concur with the Chairman. I thank him.

We are looking forward to having a hearing on this where we are able to put the vitality of ideas to the test with both competing programs, and what I hope will be a great solution for the American people.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Mr. Larson. I appreciate your comments. Mr. Schweikert, do you care to make a comment?

Mr. SCHWEIKERT. I have a dozen questions. Why don't we wait until after his testimony?

Chairman JOHNSON. A dozen questions.

Mr. SCHWEIKERT. Oh, yeah. I am going to go fast.

Chairman JOHNSON. Well, we will let you have two. How is that? As is customary, any Member is welcome to submit a statement for the record. Before we move on to testimony today, I want to remind our witness to please limit your oral statement to 5 minutes. However, without objection, all the written testimony will be made part of the hearing.

We have one witness today. Seated at the table is Stephen Goss, Chief Actuary, Social Security Administration. Mr. Goss, welcome to our hearing. Thank you for being here. Please, proceed.

#### **STATEMENT OF STEPHEN C. GOSS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION**

Mr. GOSS. Thank you very much, Chairman Johnson, Ranking Member Larson, Members of the Committee, for the opportunity to come and talk to you again about the Social Security Trustees Report and the status of these trust funds. As you all know, the Social Security Trustees Reports have been coming out from the Board of Trustees every single year, starting in 1941, updating you on what the status of the program is, and what our challenges are in the future to assure that the scheduled benefits will be able to be paid to all future generations on a timely basis, and in full.

This year, we project a combined OASI and DI trust funds, as Chairman Johnson indicated, to deplete the reserves in 2034, at which point there would be continuing income coming in to pay thereafter for essentially the indefinite future, about 75 percent of scheduled benefits, not what is desired and we're looking forward to fixing that. At that time, in 2034, if no changes were made, we would be in a position where we would have 25 percent lower benefits.

So the options, really, for changes in the future, are either to enact changes that will lower benefits by about a third, increase revenues to this program by about—I am sorry, lower benefits by 25 percent, increase revenues by about one-third, or some combination of those two.

The two most significant changes in this year's report, already alluded to by the Chairman and Ranking Member, are, first of all, the DI solvency side. We are happy to report that on the DI solvency side, we have a 5-year extension of the period over which we are projecting benefits to be fully payable under the DI program. This follows on from the Bipartisan Budget Act of 2015, where we had the reallocation that moved us from 2016 out to 2022. Last year's Treasury report gave us one more year, and this year's report is taking us 5 more years out to 2028. The reasons for this seemingly dramatic extension of 5 years is that we have had continuing, ever since 2010, declining numbers of applications coming in for disability. This is not just for Social Security, but also for SSI. It is really quite remarkable. We are studying hard all the reasons for this.

In addition, we have had a continuing lower disability incidence rate. A percentage of people who could be applying for and receiving disability, we are having fewer people actually start to receive. We have actually had declining numbers of beneficiaries under the DI program since 2013. The absolute number has actually been coming down.

So what we are doing this year for our projections is, obviously, accepting the reality of what has happened lately, and projecting out from that on a somewhat more gradual basis, not having the very next year, some applications will come right back up, but have it take 2, 3, 4 years. What we have done, however, with the Trustees, is we still maintained the same ultimate disability incidence rates by the end of the 10-year period of the short-range projection period. That is obviously under review. We are going to have to monitor very closely what continues to happen.

The overall solvency of the OASDI program, we still have the reserve depletion date for OASI and DI combined of 2034. For the OASI program all by itself, the retirement survivors, that is still 2035, the same as last year. We actually have higher reserve levels for the OASDI program through about 2033. But the actual deficit for the 75-year period, as a whole, has risen from 2.66 to 2.83 percent of payroll. And .05 of that, about a third of that, is just from the change in the valuation period, bringing in one extra year at the end of the 75-year period. Some other things that have contributed to that are the more recent data, like somewhat lower birth rates, lower immigration flows. Offsetting that somewhat, though, is that we have had higher death rates, less improvement in death rates than even we had been projecting, and many of them projecting much more improvement. Ever since 2009, death rates have not been improving in this country, as I think all are familiar with at this point.

We also had a little change that we might talk about more, accepting a slightly lower level worker productivity for the future. I really do want to comment again, because both the Chairman and Ranking Member mentioned this. The real factor, the reason we

are having this big increase over the next 20 years in the Social Security cost is not disability anymore, but it is in the retirement area. The baby boomers are all moving up into the retirement age, and not the working ages. And they are being replaced at working ages by the lower birth rate generations following, which is fundamentally changing the age distribution of our population going forward.

Finally, I really want to say, once again, that it is really a joy and a pleasure working not only with you, but really, your excellent staffs. You all have amazing staffs and amazing staff work. I can't tell you how lucky you are on that, but I am sure you realize it. And we really are looking forward to working with you and them to assure benefits will continue for the over 60 million beneficiaries we have now, the over 170 million workers contributing, and all future generations.

Thank you very much.

[The prepared statement of Mr. Goss follows:]

## **The 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds**

**Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration  
House Committee on Ways and Means, Subcommittee on Social Security  
July 14, 2017**

Chairman Johnson, Ranking Member Larson, and members of the subcommittee, thank you very much for the opportunity to speak to you today about the 2017 Social Security Trustees Report. This report has been produced and submitted to the Congress every year starting in 1941, the year after monthly benefits were first paid from a Social Security trust fund.

By law, the Trustees are required to report annually on the financial operations of the trust funds for the immediate past year, the projected operations of the trust funds over the next 5 years, and the actuarial status of the trust funds.

### **2017 Report**

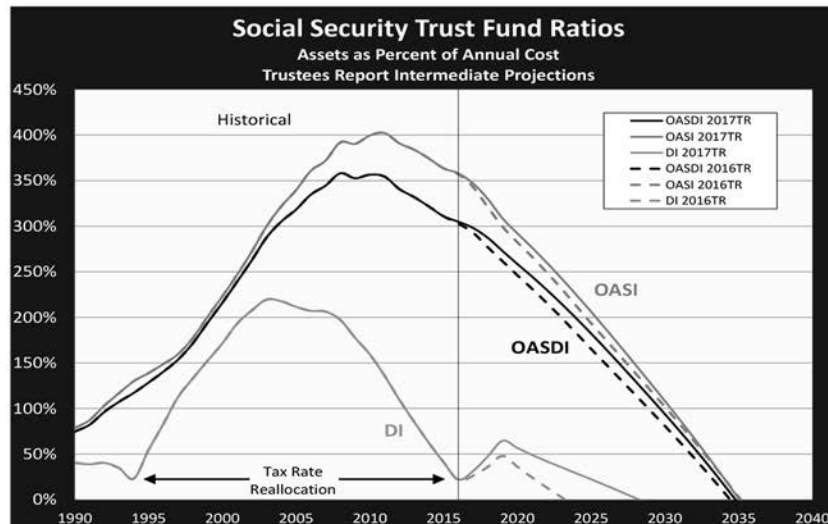
For the 2017 Trustees Report, we have two main changes from a year ago. First, based on continuing lower-than-expected disability application and incidence rates, the projected reserve depletion date for the DI Trust Fund is extended an additional 5 years, from 2023 in last year's report to 2028 in this report. Second, the long range (75-year) actuarial deficit is increased from 2.66 percent to 2.83 percent of payroll. The principal reasons for the increase in the deficit are the change in the valuation period, recent data for several demographic factors, and an assumption for a slightly lower level of worker productivity for the future.

During calendar year 2016, the Old-Age and Survivors Insurance (OASI) Trust Fund reserves increased by \$21 billion, nearly \$13 billion more than projected in last year's report. The Disability Insurance (DI) Trust Fund reserves increased by \$14 billion, about \$6 billion more than projected in last year's report. At the beginning of 2017, the combined OASI and DI Trust Fund reserves were close to \$2.85 trillion, about three times the annual cost of the program.

Over the next 5 years, the combined reserves will grow steadily, reaching \$3.00 trillion at the beginning of 2022. However, combined reserves will begin to decline in 2022. The decline is projected to be \$18 billion in 2022, but increases thereafter as the baby-boom generations continue to move into retirement ages and are replaced at working ages by the lower-birth-rate generations born after 1964. The OASI and DI Trust Funds, individually and combined, are

projected to be fully solvent through the next 10 years, thanks, in part, to the enactment in November 2015 of the payroll tax rate reallocation included in Bipartisan Budget Act of 2015. At the time of enactment, we estimated that the date of trust fund reserve depletion for DI would be extended 6 years from 2016 to 2022. In the 2016 Trustees Report, we projected that DI reserves would not deplete until 2023, largely due to the lower-than-expected recent level of benefit expenditures. For this year's report, we are projecting an additional 5-year extension of the DI reserve depletion date, to 2028. Applications for disability benefits have been declining steadily since 2010, and have continued to be below our prior projections. The total number of beneficiaries paid from the DI Trust Fund has now been falling since 2013.

Actuarial status of the trust funds is assessed on the basis of the projected ability of the trust funds to pay benefits scheduled in the law in full and on time. Under the law, all income is invested in trust fund reserves on a daily basis, and benefit obligations and administrative costs are paid on the basis of redeeming bonds held by the trust funds as needed. The law provides no ability for the trust funds to borrow or receive revenue from other than specified taxes and interest on the reserves. Thus, should reserves become depleted with continuing tax revenue less than needed to meet current obligations, benefits scheduled in the law would not be payable in full on a timely basis.

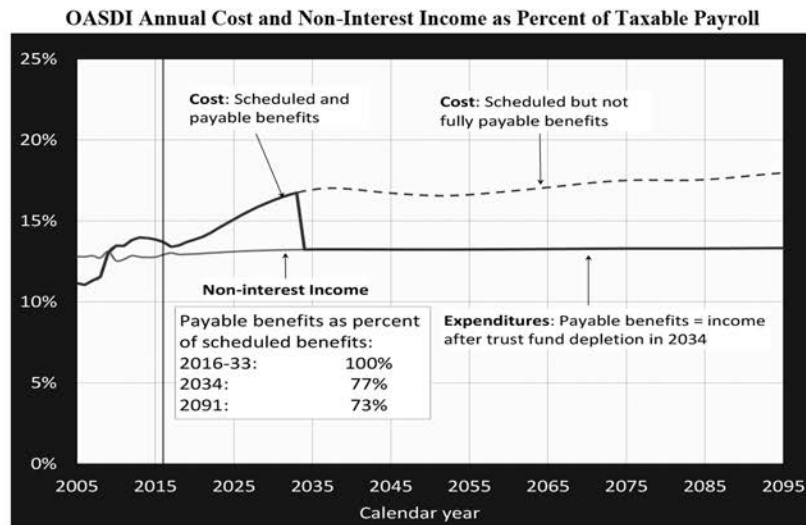


Fortunately, in the entire 82-year history of the program, the Congress has always made timely adjustments in the law to avoid reserve depletion and any sudden reduction in benefits paid. The

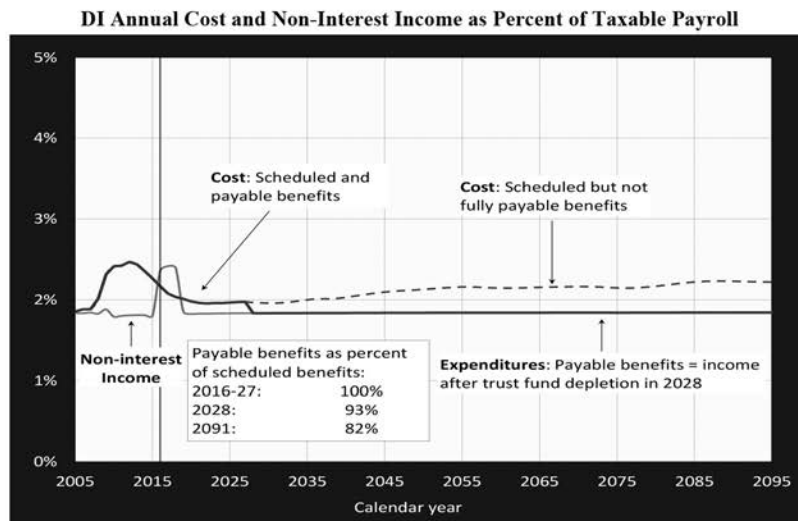
real purpose of our reporting on the actuarial status of the trust funds is to illustrate to the Congress any expected shortfall in financing of scheduled benefits so that further adjustments to the law can be made on a timely basis.

Under the intermediate assumptions used for the 2017 report, we project that the combined reserves will be depleted in 2034, the same year as in the last report, with continuing income under current law equal to 77 percent of program cost at the time of depletion. By the end of the 75-year projection period, income under current law is projected to equal 73 percent of the cost of the program, slightly less than the projected 74 percent payable in last year's report. The projected revenue for the OASDI program for 2091 is now projected to fall short of scheduled revenue by 4.48 percent of taxable payroll, somewhat more than the 4.39 percent shortfall projected for 2091 last year.

In essence, this means that by 2034 we will need adjustments in the law so that (1) the scheduled revenue for the OASDI program will be increased by about 33 percent, (2) scheduled benefits will be reduced by about 25 percent, or (3) some combination of these adjustments is enacted. Enacting changes well before reserve depletion, even if with delayed effective dates, will allow more options to be considered, more advance warning for those affected, and a more gradual phase-in of adjustments. Over the past 25 years, Trustees Reports have projected reserve depletion as early as 2029 and as late as 2042.



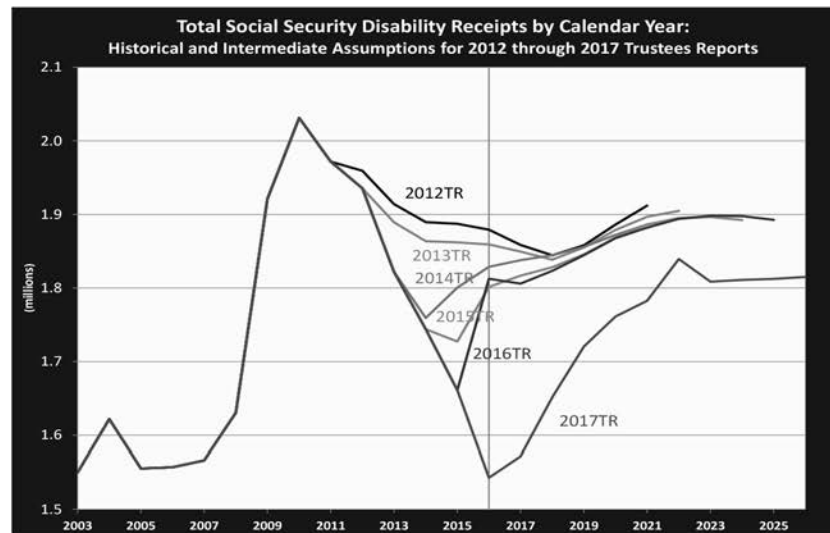
Considered alone, the separate DI Trust Fund will require some adjustment before 2034. Even with the changes in the BBA 2015 and the financially favorable recent experience, DI reserves are projected to become depleted in 2028, at which time continuing income would be equal to 93 percent of scheduled cost. By the end of the 75-year period, scheduled income is projected to be sufficient to cover 82 percent of scheduled cost.



The 5-year extension of the reserve depletion date for the DI Trust Fund in this year's report reflects:

- Another year, 2016, with disability applications and incidence rates falling well below our expectations. The number of applications for 2016, when the economy had not yet risen to the sustainable full employment level, was below the annual level at the peak of the last economic cycle (2007), and
- An extension by several years of the period over which disability incidence rates will rise to the ultimate assumed levels.

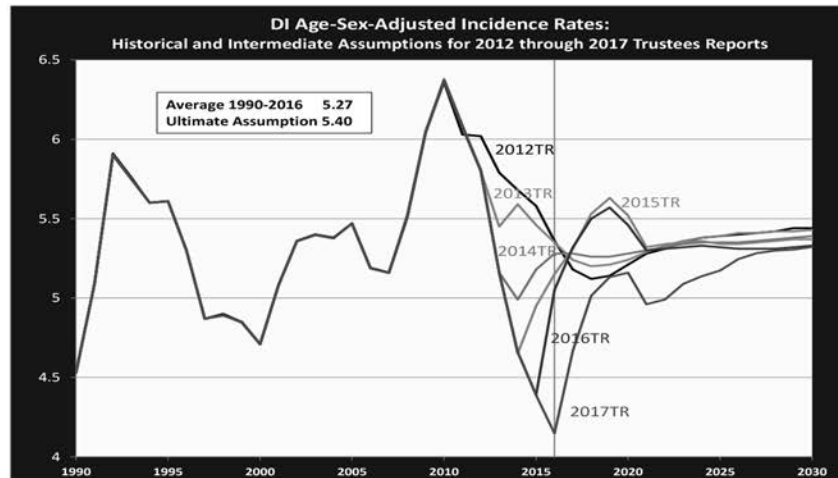
The figure below shows the continued decline in Social Security disability applications received at the state Disability Determination Services through 2016, falling well short of expectations for several years now.



Given the degree of decline in applications through 2016 in an economy that is still well short of full recovery even to the sustainable full employment level, we are now projecting that applications will rise gradually to a level somewhat lower than in recent past reports. However, we and the Trustees believe it is too early to lower the ultimate level for disability incidence based on this recent experience.

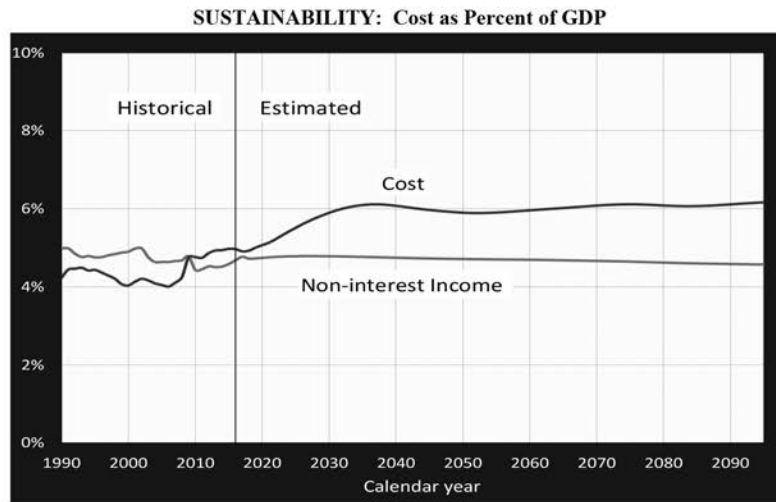


The figure below shows the more gradual rise to the ultimate incidence rate assumed for this year's report.

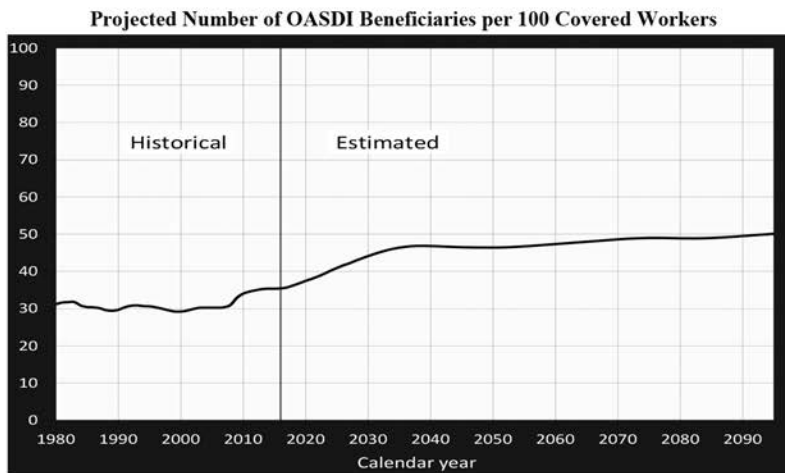


For the last several reports, we have assumed that the age-sex-adjusted disability incidence rate would rise quickly back to the expected ultimate rate of 5.4. This rate represents the number of newly disabled workers per 1,000 insured workers exposed to the risk of becoming disabled. Because actual incidence rates have continued to fall even with the economy still well short of full recovery, we have extended the period over which incidence rise to the ultimate assumed level. The temporary elevated levels of incidence in years through about 2021 in recent reports reflects the expectation that the backlog of disability cases awaiting a determination from an administrative law judge will be eliminated in the next 3 to 4 years.

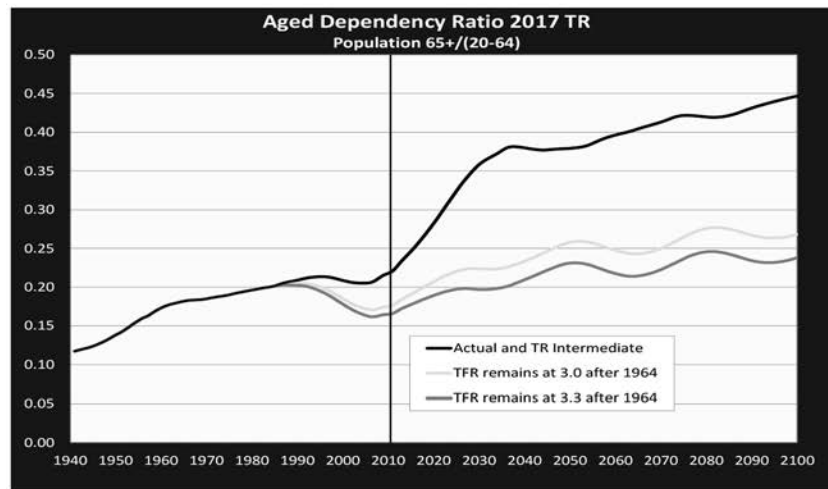
Expressed as a percent of the total Gross Domestic Product (GDP) of the United States, the scheduled cost of the OASDI program is projected to rise from 4.9 percent in 2017 to about 6 percent for 2035 and later. Projected scheduled revenue is lower over this period, between 4.5 and 4.8 percent of GDP. The fact that scheduled annual non-interest income, largely the 12.4 percent payroll taxes paid by employees and employers, is no longer sufficient to cover annual program cost is primarily due to the changing age distribution of the adult population. The fact that projected OASDI cost as a percent of GDP is basically stable after 2035 speaks to the sustainability of the program's benefit and revenue structure. The changing age distribution will simply require adjustments in scheduled income and/or cost.



The cost as percent of GDP closely follows the ratio of beneficiaries to covered workers, because the average benefit under the program is designed to rise at about the same rate as average earnings.



The ratio of beneficiaries to covered workers in turn follows closely the “aged dependency ratio” (population age 65 and over as a percent of the working age population age 20 through 64). The figure below illustrates that the large increase in this ratio between 2010 and 2035 is due primarily to the drop in birth rates from about 3 children per woman historically (3.3 during the baby-boom years) to about 2 children per woman in recent years.



Changes in longevity through declines in death rates play a more gradual but steady role in the trend of the aged-dependency ratio. Changes in death rates over age 65 are important for the actuarial status of the OASDI program. Fortunately, mortality projections used in the Trustees Reports have provided a sound basis for evaluating the actuarial status of the program in the past. While some have suggested assuming dramatically faster mortality improvement, the track record for the Trustees Reports, plus the very substantial deceleration in mortality improvement since 2009 suggest that projections in the 2017 report represent a sound basis for evaluating prospects for the future.

#### Summary Measures of Actuarial Status

The Trustees Report uses several summary measures and tests to indicate the actuarial status of the trust funds from different perspectives. The actuarial deficit for the OASDI program as a whole increased from a 75-year shortfall of 2.66 percent of taxable payroll in last year's report to 2.83 percent of payroll in this report. The actuarial deficit is the excess of the cost for full scheduled benefits over the next 75 years, including the cost of having a reserve at the end of the

period equal to 100 percent of annual cost, over the scheduled income for the program over the next 75 years, including the starting trust fund reserve level, all expressed as a percent of payroll.

Another summary measure is the unfunded obligation of the program. This is the difference between projected program cost in the next 75 years over the projected revenue (plus starting reserves). For the 2017 report, the unfunded obligation increased in present value dollars and as a percent of GDP over the 75-year period.

<b><u>Unfunded Obligation through 2091</u></b>		
<b>Estimate for 2016 Trustees Report</b>	<b>\$11.4 trillion PV</b>	<b>0.89% of GDP</b>
<b>Change valuation date only</b>	<b>\$11.9 trillion PV</b>	<b>0.91% of GDP</b>
<b>Estimate for 2017 Trustees Report</b>	<b>\$12.5 trillion PV</b>	<b>0.95% of GDP</b>

#### **Changes in Assumptions and Methods**

On balance, changes in legislation, assumptions, recent experience, and methods had a small negative effect on the actuarial status of the OASDI program. The table below highlights the main factors in the change in the actuarial balance for this year.

<b><u>Principal Reasons for Change in 2017 OASDI Trustees Report</u></b>	
<b>Actuarial Balance – Net change of -0.17 percent of payroll</b>	
<b>Valuation period</b>	<b>-0.05 percent</b>
<b>Legislation/Regulation</b> <i>(non-implementation of 2014 DAPA/DACA)</i>	<b>+0.00 percent</b>
<b>Demographics</b> <i>(lower recent fertility and immigration; higher recent mortality)</i>	<b>-0.03 percent</b>
<b>Economics</b> <i>(including lower level of labor productivity and potential GDP)</i>	<b>-0.08 percent</b>
<b>Disability</b> <i>(recent experience and assumptions)</i>	<b>+0.03 percent</b>
<b>Other program data and methods improvements</b>	<b>-0.04 percent</b>

The change in the valuation period, effectively adding a year to the end of last year's 75-year period, increases the actuarial deficit because of the relatively large annual deficits at the end of the period.

For this report, we assumed that the 2014 executive actions establishing the Deferred Action for Parents of Americans (DAPA) program and expanding the Deferred Action for Childhood Arrivals (DACA) program would not be implemented. Recent directives from the Department of Homeland Security have confirmed this assumption. The net effect on the combined OASDI Trust Funds is negligible.

Lower recent experience for both birth rates and net immigration contribute toward an increase in the actuarial deficit. Continued higher-than-expected death rates and lower-than-expected disability application and incidence rates have significant but offsetting effects. Also, during the recent recession and partial recovery, productivity (economic output per hour worked) has not increased as fast as previously expected. For the 2017 report, we have accepted that a portion of this loss in labor productivity will be permanent, thus increasing the actuarial deficit. Finally, several changes were made in projection methods, the most significant being better recognition of earnings late in career for future generations that are assumed to start receipt of retirement benefits at older ages.

The Trustees apply a short-range test of financial adequacy that requires that reserves remain at or grow to at least 100 percent of annual cost over the next 10 years. The OASI Trust Fund as well as the combined OASI and DI Trust Funds satisfy this test. The DI Trust Fund once again does not.

Section 709 of the Social Security Act also requires that the Trustees report to Congress when a Trust Fund is projected to have reserves below 20 percent of annual cost in the future. In order to give Congress ample time to consider necessary adjustments, the Trustees make such reports when the reserve ratio is projected to be below 20 percent within the next 10 years. Again this year, the Trustees have submitted this notice to the Congress for the DI Trust Fund. The DI Trust Fund reserve ratio was 31 percent at the beginning of this year and will rise to 65 percent at the beginning of 2019, due in part to the tax rate reallocation enacted last year. The ratio will then decline and will fall below 20 percent by the beginning of 2026, and without Congressional action, reserves will become depleted in 2028.

The Trustees also report on the long-range test for close actuarial balance. This test requires that the program satisfy the short-range test of financial adequacy and, in addition, maintain a positive reserve throughout the remainder of the 75-year projection period, indicating the ability to pay all scheduled benefits in full on a timely basis. At this time, neither the OASI nor DI Trust Funds individually or combined meet this long-range test. While the financial and benefit structure of the OASDI program is sound, adjustments are needed to accommodate the changing age distribution of the population over the next 20 years that is largely the result of persistent lower birth rates after 1964.

### **Actuarial Opinion**

The Social Security Act requires a statement of actuarial opinion from the Chief Actuary of the Social Security Administration regarding the reasonableness of assumptions and methods used in the report. I am happy to indicate that the actuarial opinion for the OASDI Trustees Report has never included a qualification of the assumptions and methods used to project the actual cost and operations of the trust funds under current law. However, starting with the 2014 report, the actuarial opinion has included a caveat regarding a reference in the OASDI report to an appendix on federal budget accounting in the Medicare report. This appendix, first introduced in 2004, describes the implications of projected OASDI and Medicare Trust Fund operations under the customary budget scoring convention. This caveat warns the reader that discussion of the trust funds in relation to the overall federal budget and implications for federal debt held by the public are distorted and misleading because of use of this budget scoring convention. This convention presumes that OASDI obligations scheduled in the law that cannot be paid in full and on time after Trust Fund reserve depletion, will nonetheless be paid at the expense of the General Fund of the Treasury. The General Fund is presumed to borrow from the public as needed to pay full scheduled benefits after reserve depletion. The problems with this convention are: (1) the law does not permit such general fund transfers, either before or after trust fund reserve depletion; (2) there has never been a precedent for a change in the law providing such transfers; and (3) results presented in the budget scoring context do not provide clear disclosure that they are hypothetical projections presuming a change in law that would allow for the indicated general revenue transfers to the trust funds after reserve depletion.

Please note that the 2017 and all prior years' Trustees Reports are available at <https://www.ssa.gov/oact/pubs.html>, along with a wide variety of additional actuarial analyses related to the reports and to changes policymakers have considered for making adjustments to the program.

### **Conclusion**

Based on the experience of the past year and the intermediate assumptions of the 2017 Trustees Report, there are two main points I would like to make. First, the date of DI Trust Fund reserve depletion has been extended 5 years to 2028. Second, the actuarial status of the combined OASI and DI Trust Funds is slightly worsened compared to last year's report, with a slightly larger actuarial deficit over the long-range period. The long-known and understood shift in the age distribution of the United States population will continue to increase the aged dependency ratio, and in turn increase the cost of the OASDI program as a percentage of taxable payroll and GDP. Once this shift, reflecting the drop in the birth rate after 1964, is complete around 2035, the cost of the program will be relatively stable at around 6 percent of GDP. We look forward to working

with this Committee and others in developing the adjustments to the law that will be needed to keep the program in good financial order providing retirement, disability, and survivor benefits for future generations.

Again, thank you for the opportunity to talk about the 2017 Trustees Report. I will be happy to answer any questions you may have.



Chairman JOHNSON. Thank you, sir. I appreciate your testimony. And we will now turn to questions. As is customary, for each round of questions, I will limit my time to 5 minutes, and ask my colleagues to also limit their questioning time to 5 minutes as well.

Mr. Goss, with the Disability Insurance trust fund solvency date shifting 5 years later, some folks may think we don't need to talk about Social Security right now, and can just wait. I want to make sure we are all on the same page. Isn't it true that the longer we wait the harder it gets?

Mr. GOSS. Chairman Johnson, you are entirely correct. The one thing we know, and I think you alluded to at least some of this, is that a perfect example of what the 1983 amendments, the last major change we had, where one of the big factors in that was increasing the normal retirement age. That was implemented with a 17-year delay. So if we enact something relatively soon, even if it is not implemented into the future, that gives the people who will be affected lots of advanced warning, which is a really good thing. It also allows many more options to be considered than if we wait until the last minute. And it allows us to phase in changes more quickly. So it is all good, when acting sooner, if there is some delay to implementation.

Chairman JOHNSON. Thank you. Mr. Goss, one of the big headlines from yesterday's report is the Disability Insurance trust fund's solvency date doubling the program's years of solvency, which seems like a big change. How confident are you that we aren't just going to lose this additional solvency a few years from now?

Mr. GOSS. Well, there is no question that there is a risk of that, but our estimates on this point, as with all our estimates, we would say we are about equally likely to have the solvency date extend further as to come back. The tricky part of the Disability Insurance trust fund is that we have a relatively low level of trust fund reserve, and also, our revenue income, even after we get past the tax rate reallocation, compared to our cost of the program, are pretty close together. So any significant fluctuation of either one of those could cause us to deplete sooner or later. But at this point, based on the data we have, the 5-year extension looks pretty solid. And, if anything, if applications and incidence rates stay anywhere near as low as they have been lately, we might very well have a greater extension and have need to change our ultimate incidence rates going into the future. But time will tell. We just wish we had the crystal ball to be able to tell you with any certainty.

Chairman JOHNSON. Well, thank you. We often hear that if we would just raise Social Security taxes, it will solve all of Social Security's problems. But it is important for folks to understand the facts. Social Security earnings up to a certain amount, called the taxable maximum, are subject to payroll taxes. What is the taxable maximum this year?

Mr. GOSS. For this year, 2017, the tax maximum is \$127,200. So anybody making more than that—

Chairman JOHNSON. If the taxable maximum were raised to cover 90 percent of earnings, what would the taxable maximum be this year?



Mr. GOSS. To cover 90 percent, it would be about double that, right around \$250,000, to just a little bit less.

Chairman JOHNSON. Some have suggested we should get rid of the taxable maximum, and instead, subject all earnings to payroll tax. Mr. Goss, if all earnings were subject to payroll tax, would Social Security be solvent?

Mr. GOSS. It would be solvent longer. It would not be solvent sort of into the indefinite future.

Chairman JOHNSON. Okay. So the answer is no. At what point would costs once again exceed income?

Mr. GOSS. If we were to enact a change with no—let's see—if we were to enact a change with no benefit credit for the extra, we would actually solve about 80 percent of the long term, and we would be good to well into the 2060s for the solvency.

Chairman JOHNSON. Into the 20 what?

Mr. GOSS. Into the 2060s. Let's see.

Chairman JOHNSON. Really?

Mr. GOSS. No, I am sorry. If we gave no benefit credit at all and taxed all income, our solvency date would move from 2034 to 2083. Now, if we give benefit credit tax, if we were to tax all earnings and then include in our computation of benefits the extra earnings that were going to be taxed, then we would extend the solvency date out to 2067 for the program as a whole.

Chairman JOHNSON. Out to 20 what?

Mr. GOSS. Out to 2067.

Chairman JOHNSON. Yeah. I was told 2026.

Mr. GOSS. Pardon?

Chairman JOHNSON. I was told 2026.

Mr. GOSS. Oh. Well, 2026 would be the—would be the date at which the annual income would then start to fall below the annual outgo, but we would still have significant reserves at that point that would carry us for solvency purposes out to 2067, so you are exactly right. So on a cash-flow basis, the point at which income would again fall below our cost of paying all the benefits, which—

Chairman JOHNSON. So the income would reduce to where it wouldn't cover what we are doing?

Mr. GOSS. Right. The current income would not be sufficient. We would have to draw on the reserves.

Chairman JOHNSON. So even if we get completely rid of the taxable maximum, the program will be running cash flow deficits within the next decade. Is that true?

Mr. GOSS. That is correct.

Chairman JOHNSON. That sure doesn't get us much. As I said before, we clearly can't tax our way to solvency. Mr. Larson, do you care to question?

Mr. LARSON. Oh, absolutely. Thank you, Mr. Chairman. And thank you, Mr. Goss. Usually, when I go out to do town halls, I carry with me two things: The actuary report on the bill that we have submitted, and a Starbucks. And I do so to make a point. The first point I make to people, and I think you can confer on this. The Social Security is an insurance plan. It is not an entitlement. It is an insurance plan. It is an insurance plan that you are assessed through FICA. FICA is the Federal Insurance Contribution Act.

Whose contribution? Yours. The last time insurance premiums went up in Social Security was in 1983. Is that correct?

Mr. GOSS. That is correct.

Mr. LARSON. So has anyone in this audience or anywhere in the country's insurance not gone up on actuarial assumption since 1983? And the answer, of course, is, of course they have gone up, because they keep pace with the assumptions and changes that are ongoing, except for Social Security. So had, I believe, our predecessors indexed this system appropriately, we wouldn't be having this discussion, it would have been taking care of itself incrementally.

So, I ask you, as I go out to these town halls, and you have done the analysis on our bill, can you confirm that our bill doesn't have any cuts in terms of people's benefits?

Mr. GOSS. That is correct.

Mr. LARSON. In fact, we increase people's benefits because they also have not kept pace. In fact, we find more people retiring into poverty, unfortunately, most of them women, because of their time in the workforce, and they—or because for every dollar their marital counterparts receive, they receive \$0.77. Is that accurate?

Mr. GOSS. No question, but that all wage rates are lower for women.

Mr. LARSON. Also, we wanted to make sure with our program that we would offer middle income tax relief for seniors. And I know this will interest my colleagues. How is it that you have tax relief for seniors? Well, because, again, we haven't made a change since 1983. In 1983, we said, if you are single and making more than \$25,000, your Social Security is taxed. And if you are a married couple, then it is \$32,000. So we changed that to \$50,000 and \$100,000, thereby giving 11 million seniors a tax break. So we think that these are all important things, and the differences—and I don't think they are big differences, actually. I understand clearly the desire on both sides to make sure that the Nation's insurance program is solvent beyond 75 years, which, again, by your report, the bill that we have submitted does. Mr. Johnson's bill does that, as well. It takes—it makes it solvent beyond the 75-year period. That is the position we need. The differences are that we believe that with a modest tax, and we believe that you should increase the fund by 1 percent. You said it very well at the outset when you said, well, look, here is your alternatives. You can make cuts by about a third, I believe you said.

Mr. GOSS. By about a quarter.

Mr. LARSON. By about a quarter.

Mr. GOSS. Revenue by about a third.

Mr. LARSON. Revenue by a third.

Mr. GOSS. Or some of each.

Mr. LARSON. Or some of each. So we believe that especially with so many people finding themselves in the position where Social Security is their only retirement—the only retirement they have. Now, we can lecture them, and say, you should have been wiser. But tell that to people who saw in 2008 their 401(k)s become 101(k)s through no fault of their own. Yet, the one program that isn't going to fail them, that is there, and never missed a payment, is Social Security.

So I believe, with the intelligence we have on this Committee, that we have an opportunity to solve this. I thank the Chairman, because Rich Neal pointed out to me the other day, we have not—and Mr. Johnson says this all the time—really taken this on as a Committee in more than 25 years. We have postponed any kind of difficult decision as it relates to this. And now, as you pointed out, the baby boomers are upon us. I think we have a moral obligation to take action, whatever that outcome is, whatever this Committee thinks the best alternative is, we ought to have that competition, and we ought to have a vote. And I thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, sir. Mr. Schweikert, you are recognized.

Mr. SCHWEIKERT. Thank you, Mr. Chairman. And it is actually—don't make fun of me—it was this hearing that was one of my primary reasons I wanted to be on Ways and Means. And I have a dozen different things that are bouncing in my head, and then you always get the things from your really smart staff that say, don't ask that.

But on your team, do you actually have a demographer, someone that basically does population statistics?

Mr. GOSS. We do indeed. We have 57 folks in our office; we have about six or seven economists; in addition to actuaries; and we have four or five demographers full-time, all the time, working on demography.

Mr. SCHWEIKERT. Would you ever allow me to geek out with one of them? There are a couple things in the numbers that have always bothered me. And part of this, actually, is where everyone on the Committee has been, trying to understand with the crash and the birth rates—and you saw what the report showed from this first quarter of the year, we have hit an all-time low, and a cascade effect of those birth rates for future generations. And I am curious because in sometimes reading over your documents, I am not sure I am seeing the stressing of today's birth rate—if it were to hold in sort of the long-term numbers. And I just want to see that is being properly modeled.

Mr. GOSS. We would love to—we have never been called geeks before. I don't think—we would love to geek out.

Mr. SCHWEIKERT. Oh, I mean that with love.

Mr. GOSS. We do have a sensitivity section in the Trustees Report that actually explores, what if the total fertility rate stayed low forever?

Mr. SCHWEIKERT. Will you ever allow someone to have your sensitivity analysis on—I don't know what program you write in, but to make it available for one of us who would just like to play with it online and move some numbers up and down, because we have had discussions here of—as we are doing tax reform and other things, would any of those have any influence on population growth, or even immigration reform, and the ability to also see the cascade benefits or stresses from that?

Mr. GOSS. Oh, absolutely. The models are pretty complicated. We would be really happy to sit down with you, your staff, anybody, and work through the implications. We have scored comprehensive immigration reform plans. There was one in the Senate a couple years ago.

Mr. SCHWEIKERT. But that was in the past 10 years when you did that scoring, wasn't it?

Mr. GOSS. It has been awhile. It was 2011, I think, maybe. But we have all these cascading effects built in.

Mr. SCHWEIKERT. I actually have that in one of my binders. Now, can I ask something that is a little uncomfortable. On the DI numbers, and please forgive me, because I was doing this partially with your information, and partially on my own, the mortality statistics on some of the male population who were enrolled in DI, how much of the extension and the longevity is because we have so many of our brothers, particularly, killing themselves?

Mr. GOSS. That is a really good question. We do have built in to our disability projections, mortality is one of the ways in which people cease receiving benefits, of course.

Mr. SCHWEIKERT. But isn't that the point where you saw some real noise between last year and this year?

Mr. GOSS. We saw some noise. It is relatively modest. We have been seeing, ever since 2009, small increments of death rates being higher than we have been projecting, and we have been modifying for that. Those have had very small effects. For the program as a whole, I think it was on the order of .03 or .04 percent of payroll.

Mr. SCHWEIKERT. So that is about half of what I thought.

Mr. GOSS. So for DI it would be much less than that.

Mr. SCHWEIKERT. Good. It was just one of those—you see some of the statistics of the population of the current mortality rates, and then sometimes you will come across another number set that says how many of those were actually enrolled in DI programs. And we have been struggling, saying,—is that in the noise? Okay. And I am trying to watch my time. On big Social Security, 176 million workers in our society, 60 million receiving benefits today. So our ratio now is 2.9 workers?

Mr. GOSS. Roughly, 172.

Mr. SCHWEIKERT. Yeah, but 2.9 workers for every beneficiary. But, also, even if I take your current number on number of years left in the trust fund, so if I am 56, I should expect if I take my retirement at, what, 72, I am getting a 25 percent discount unless we do our job and change the numbers?

Mr. GOSS. True. But we have total confidence in changes, because we never hit that point ever in the past.

Mr. SCHWEIKERT. But the hard math as of your report today—is a 56-year-old or younger—

Mr. GOSS. Uh-huh.

Mr. SCHWEIKERT [continuing]. When they go to retirement and pull their max benefits, they would be receiving a 25 percent reduction in that benefit?

Mr. GOSS. Yes.

Mr. SCHWEIKERT. So just to sort of put it in perspective—we have a long on-ramp and we need to start getting on that freeway now.

Mr. GOSS. Exactly.

Mr. SCHWEIKERT. And the beauty of this is whether you would be on the right or the left functionings math, with a number of levers. This is something we can all do together. Just one other idio-

syncrasy, could you tell me the formula, just the—of the STIF that is paid for the special treasury bills back to the trust funds?

Mr. GOSS. Ah, yes. So every penny that comes into the system is required to be invested immediately into interest-bearing securities, backed by the full faith and credit of the U.S. Government. There are a couple of options, we could actually buy marketable securities. Lately, we have been getting special issues to the trust fund. Any special issue to the trust fund that is provided in a given month, the coupon rate on that is precisely what Treasury measures as the average effective market yield on all outstanding marketable treasury securities as of the prior month, with the remaining duration or call or maturity of 4 years or more.

Mr. SCHWEIKERT. Four years or more?

Mr. GOSS. Four years or more, so it is a medium- to long-term yield rate. The actual effective market yield is—well, right now—

Mr. SCHWEIKERT. Because a year ago—

Chairman JOHNSON. The gentleman's time is expired. Mr. Buchanan, you are recognized.

Mr. SCHWEIKERT. Do you know what your number is right now?

Mr. GOSS. The number—I believe it is in—well, for the new issues, I believe it is in the 2s.

Mr. SCHWEIKERT. Thank you, Mr. Chairman. Sorry for going over.

Chairman JOHNSON. Mr. Buchanan, you are recognized.

Mr. BUCHANAN. Thank you, Mr. Chairman. I appreciate you coming back. I have been on the Committee for awhile, so we always kind of like your updates. I am from Sarasota, Bradenton, Florida. We represent, probably, I think, the top two or three most seniors of any district in the country. And, of course, Florida in general. I am concerned about all of the seniors, but I also am concerned about our children and grandchildren. I have four grandchildren under 3, so I am very concerned. I am glad we are looking out 75 years. But let me—and I do want to—my colleague had mentioned, there is a lot of truth, and I see it every day—I did a town hall the other day. A third of Americans, when they get 65, I have heard, you know, don't have anything but Social Security and Medicare. And another third have something, but not enough. And then another third got lucky or whatever. So that is why these programs—and I agree—are so critical that we do the right thing.

I want to ask, because this is maybe, you know, a more sensitive issue for some people, but the reality—and these are things—I do a lot of town halls and these are things that I get. The trust fund, in the 1960s, they took all the money out of it, so there is an IOU from the Federal Government. Is that correct?

Mr. GOSS. I believe for the entirety of the existence of the program, it has been required that we invest.

Mr. BUCHANAN. Let me ask it a different way. How much money is there ideally, in theory, in the trust fund?

Mr. GOSS. It depends on the way in which you formulate the loss the way in which it should be funded.

Mr. BUCHANAN. My understanding, there is nothing in the trust fund other than an IOU from the Federal Government because they used those funds. It is my general understanding that

in the 1960s, that is kind of what I hear. My concern is, and I am sure you don't take a look at that, when you look at the viability of Social Security to 2032 or 2034, you are taking into account the ability of the Government to be able to do its part and pay back the trust fund. Is that correct?

Mr. GOSS. Absolutely.

Mr. BUCHANAN. So when you are running the last 10 years, there is \$10 trillion worth of debt in deficits. I have been pushing since I have been here, a constitutional balanced budget amendment, like 49 out of 50 governors have, that simply says you don't spend more than you take in. But if you look 10 years ago, when I first got here, it was almost \$9 trillion in debt. Today we are \$20 trillion in debt. So when you look at the viability of Social Security, you are counting on the ability of the Federal Government to meet its obligations. Is that correct?

Mr. GOSS. That is correct.

Mr. BUCHANAN. Okay. I just want to make sure that is on the record. Because I think it is something we have to deal with, especially when you look at—and there is plenty of blame to go around. This isn't a Democrat or Republican issue, but I think it should be something that gets looked at. As a business person and the guy that was on bank boards, the ability to pay is something we look at seriously.

Let me get down to one basic—a couple of basic issues. On COLA, I get asked by a lot of the seniors, I guess we received a little bit of an increase, .3 of 1 percent, the year before, nothing. And then there were some increases over the years. The argument I hear is, look, our costs in the last couple of years have gone up. We are not seeing anything extra in COLA. How are you guys figuring this COLA? So maybe you can comment.

So last year was little or nothing, and the year before was nothing in terms of COLA. Where are we at today, or how can you explain what has taken place in the last couple of years?

Mr. GOSS. Well, the latest projection, and very uncertain, of course, is for the next COLA, December of this year, of 2.2 percent. We will see. We determine the COLA based straight up on the basis of the material that comes from the Bureau of Labor Statistics, they do the survey of urban wage earners and clerical workers, a big survey across the country, of how much the price of the market basket of things they buy changes over time. And when the price of things they buy goes down, as it did two COLAs ago, we ended up not having any adjustment. Last year we had a small adjustment because the price came back to somewhat higher than it had been 2 years prior.

Mr. BUCHANAN. What are you projecting this year?

Mr. GOSS. We are projecting this year 2.2 percent.

Mr. BUCHANAN. So is that fair, if seniors ask me, the projection is 2.2, is there a fairly good chance that is going to be somewhat a reality?

Mr. GOSS. Probably somewhere between 1½ and 2½ would be a good guess, because there is a lot of uncertainty. And the thing that has really driven the volatility of prices in this market basket in recent years is the price of energy, in particular, petroleum products. And we continue to see lots of fluctuations of that every time

we go to the gas pump. So that has really been kind of the issue. But we are expecting on the order of a couple of percent for this next upcoming COLA.

Mr. BUCHANAN. Thank you, Mr. Chairman. I yield back.

Chairman JOHNSON. Thank you. Mr. Pascrell, you are recognized.

Mr. PASCRELL. Thank you, Mr. Chairman. Thanks for putting this together and being one of the pioneers to say, let's prepare for the future.

Chairman JOHNSON. Thank you.

Mr. PASCRELL. I think that is important. I have traveled with Brother Larson in many communities to talk about the legislation that my friend from Connecticut has talked about. But I am alarmed, Mr. Chairman, I am alarmed at the fact that the budget that was presented this year, *The New Foundation for American Greatness*, that was the title of the book which contained the budget, had a \$64 billion cut in disability, Social Security Disability. So I know that you don't directly deal with that, but that was alarming to me, in view of us trying to package something. When they say we have 16, 17 years to do this, but I don't know if that is accurate or not. But about the COLA, that we can talk about. And what we need to understand, in dealing with Social Security issues, is that COLA is very important for seniors who live on fixed income.

Now, that COLA should represent, to me, the actual expenses that seniors have to put up with day in and day out. Instead, you know, there are so many exceptions to the rule. And it is so antiquated, the formula that we use. We never capture what that COLA is because we are afraid to deal with the reality of, well, how do we address that in terms of cutting checks for people every month? Now, they paid into it; I paid into it; you have paid into it, and we want a fair return at the end. The legislation that the gentleman from Connecticut has talked about reflects it. The legislation is right on concerning how we will adjust that COLA to be more realistic about what seniors get in that check that was cut, wherever it was cut. And will you agree with me?

Mr. GOSS. I believe Mr. Larson's bill would change to the CPIE for experimental——

Mr. PASCRELL. Right.

Mr. GOSS [continuing]. Some people say. It is based on 62-and-over population's market basket approach.

Mr. PASCRELL. Let me ask you this, Mr. Goss. First of all, is Social Security bankrupt?

Mr. GOSS. By any normal meaning of the word, I think we have to say no. As Chairman Johnson and others have said, even if we reach the point of reserve depletion, we still will be able to pay initially 77, more or less, on the order of——

Mr. PASCRELL. And it appears from those same numbers that we are not on the verge of bankruptcy. No, we are not bankrupt today, but we are going to be bankrupt tomorrow. Now, we can't say that right now. Has Congress needed to shore up Social Security, the trust fund in the past?

Mr. GOSS. Numerous times, and it has always stepped up.

Mr. PASCRELL. Have the actions that the Congress took in the past to shore up the trust fund, we hear a lot about that, resulted in any substantial benefit cuts?

Mr. GOSS. It has at times. The principal benefit reduction was actually back in the 1977 amendments when there was actually a need for a major change in the benefit formula, but there were in the 1983 amendments, there was a mix between additional revenue and—

Mr. PASCRELL. Right. Has Social Security ever failed to pay anyone's benefits?

Mr. GOSS. Social Security has never reached the point of reserve depletion, and failed to pay the scheduled benefits on a timely basis.

Mr. PASCRELL. What I think your answers are, and I will be very quick, Mr. Chairman. It says, to me, that Congress will need to take action to extend the trust fund solvency, but we do not need to cut benefits or substantially restructure the program to do this. Would you agree with that?

Mr. GOSS. It is certainly possible to extend the solvency without benefit reductions.

Mr. PASCRELL. Mr. Chairman, thank you, and good luck on your endeavor.

Chairman JOHNSON. Thank you, sir. Mr. Rice, you are recognized.

Mr. RICE. Thank you, Mr. Chairman. They called for a vote, so I am going to be quick. There are a whole lot of major issues that are facing this country that have been over our heads for a long time, and I believe are holding our economy back: tax reform, healthcare, infrastructure, but none more important to more people than Social Security. It affects such a large swath of our population, it is so critical to their everyday life.

One question was referred to earlier that I get all the time, but I want you to state this in more simple terms for the folks back home. I frequently hear, well, Social Security would be all right if the Federal Government hadn't robbed the Social Security bank. In fact, the money—the money comes in, and it is in a trust fund—and I always respond, the only problem with Federal trust funds is if they are not funded, you can't trust them. That being said, you have to invest that money, you just don't leave it in the closet, you have to invest it. When dealing with Social Security, you want to invest it in something that is rock solid, like something backed by the full faith and credit of the U.S. Government, so you loan the money to the government. Now, is the government cheating Social Security in any way in that transaction?

Mr. GOSS. The government—there is no way we could say the government is cheating Social Security. Every penny that has ever gone to the trust fund, when it is needed, it comes back with interest.

Mr. RICE. And I have looked at the rate that the government pays Social Security on that trust fund, and in the last decades, that rate has averaged higher than the government pays on the 10-year treasury bill. Can you confirm that?

Mr. GOSS. The rate—the whole things we have in the trust fund, many of them were issued years ago when the rates were actually



higher. So we retain those bonds until we redeem them at the higher rate. The average yield is higher than the current new issue rate.

Mr. RICE. So the government, in borrowing money from Social Security, could borrow it from other places cheaper. The government could go and borrow that money on the market for a 10-year treasury bill cheaper than the rate it is paying to Social Security.

Mr. GOSS. Well, actually, for new money to be borrowed today from the trust funds or from the market, they pay exactly the same rate for new money that is being borrowed. For older existing bonds, they are paying us possibly a higher rate. But if somebody in the populace is holding a marketable treasury that is 10 years old, they will be getting a higher rate also.

Mr. RICE. Just to be crystal clear, I don't want to complicate this for my folks back home: The rate that the government has paid to the Social Security trust fund, to borrow that money from the Social Security trust fund, is higher for the last two decades than what the government pays on the 10-year treasury bill?

Mr. GOSS. I respectfully would suggest that the rate of any new bond issued is issued with a coupon rate exactly according to what the current effective market yield is.

Mr. RICE. That is new bonds. But on the whole pile, the average rate—

Mr. GOSS. The average rate for existing bonds that we are holding is higher than the current effective market yield for bonds.

Mr. RICE. Thank you, sir.

Chairman JOHNSON. As we have heard today, even with the improvements in the solvency of Disability Insurance, Social Security faces serious challenges. Americans deserve a fact-based conversation about the tough choices necessary so that Social Security is a program our children and grandchildren can count on, just as seniors and individuals with disabilities do today.

I look forward to continuing this conversation and working with all my colleagues to strengthen Social Security. Thank you to our witness for his testimony. Thank you, also, to our Members for being here. With that, the Subcommittee stands adjourned.

[Whereupon, at 10:43 a.m., the Subcommittee was adjourned.]

[Questions for the Record follow:]

KEVIN BRADY, TEXAS,  
CHAIRMAN

BOB JOHNSON, TEXAS  
DEVIN NUÑEZ, CALIFORNIA  
PATRICK J. TIERNEY, OHIO  
DAVID G. REICHERT, WASHINGTON  
PETER J. ROSKAM, ILLINOIS  
VIRN BUSHANMAL, FLORIDA  
ADRIAN SMITH, NEBRASKA  
LYNN JOHNSON, KANSAS  
ERIC PAULSEN, MINNESOTA  
KENNY MARCHANT, TEXAS  
DAINE BLACK, TENNESSEE  
TOM REED, NEW YORK  
MIKE KELLY, PENNSYLVANIA  
JIM RENACCI, OHIO  
PATRICK MICHAEL, PENNSYLVANIA  
KRISTI NOEL, SOUTH DAKOTA  
GEORGE HOLDING, NORTH CAROLINA  
JASON SMITH, MISSOURI  
TOM REED, SOUTH CAROLINA  
DAVID SCHWENKERT, ARIZONA  
JACQUE WALORSKI, INDIANA  
CARLOS CUMBEL, FLORIDA  
MIKE BISHOP, MICHIGAN

DAVID STEWART,  
STAFF DIRECTOR

## Congress of the United States

### U.S. House of Representatives COMMITTEE ON WAYS AND MEANS

1102 LONGWORTH HOUSE OFFICE BUILDING  
(202) 225-3625

Washington, DC 20515-6548  
<http://waysandmeans.house.gov>

RICHARD E. REAL, MASSACHUSETTS, RANKING MEMBER  
SANDER M. LEVINS, MICHIGAN  
JOHN LEWIS, GEORGIA  
LLOYD DOGGETT, TEXAS  
AMIE THOMPSON, CALIFORNIA  
JOHN B. LARSON, CONNECTICUT  
KARE BLUMENHAUER, OREGON  
ROD KING, WISCONSIN  
BILL PASCRELL, JR., NEW JERSEY  
JOSEPH CRONIN, NEW YORK  
DANNY K. DAVIS, ILLINOIS  
LINDA SANCHEZ, CALIFORNIA  
BRIAN HIGGINS, NEW YORK  
TERRY SEWELL, ALABAMA  
SUZAN DAUBINE, WASHINGTON  
JUDY CHU, CALIFORNIA

BRANDON CASEY,  
MINORITY CHIEF OF STAFF

July 28, 2017

Stephen C. Goss  
Chief Actuary  
Office of the Chief Actuary  
Social Security Administration  
6401 Security Boulevard  
Room 700 Altmeyer Building  
Baltimore, MD 21235

Dear Mr. Goss:

Thank you for your testimony before the Committee on Ways and Means at the July 14, 2017 Social Security Subcommittee hearing entitled, "Social Security's Solvency Challenge: Status of the Social Security Trust Funds." In order to complete our hearing record, we would appreciate your responses to the following questions:

1. A Trust Fund ratio of 100 means that reserves are sufficient to pay one year's worth of benefits. What is the advantage of having reserves of this amount?
2. The Disability Insurance (DI) Trust Fund ratio has been under 100 since 2013 and is projected to reach single digits in 2027. How large of an economic shock would be needed to cause the DI Trust Fund to be unable to pay benefits in 2019? What about in 2027 or 2028?
3. When you testified before this Subcommittee last year, you emphasized the importance of making incremental changes to assumptions. This year the exhaustion date for the DI Trust Fund shifted out by five years due to a reduction in the projected number of DI applications and awards. Is the change to this assumption temporary or permanent? Why?
4. Your office regularly produces memos on Social Security plans introduced by Members of Congress and others. After the discussion at last year's Trustees and Congressional Budget Office (CBO) hearing, your office added a new tax table to these memos. What do these new tables show? How can policymakers use this new Table T to understand the lifetime tax implications for a given policy change?

5. There are six Trustees, four Administration Trustees – the Secretaries of Treasury, Health and Human Services, and Labor, and the Commissioner of Social Security – and two Public Trustees. Social Security has had an Acting Commissioner since 2013, some of the other Trustees were only recently confirmed, and there are still no Public Trustees. Given all this, how did this year's report development process work? Did it differ from previous years?
6. Every CBO publication includes a list of all staff who contributed and what areas each person was responsible for. Why doesn't the Trustees Report have a similar list that includes your office's staff and the members of the Trustees Working Group?
7. At one of last year's hearings, we learned that labor force participation assumptions are one of the big drivers of the differences between the Trustees and CBO. I understand the Social Security Advisory Board Technical Panel on Labor Force Participation recently concluded its work. The panel recommended some changes to the Trustees' labor force participation model. Who determines whether or not to accept these recommendations?

**Question from Rep. Jim Renacci**

1. How often do the Trustees meet as a group? For this year's report, you had two sets of Trustees to work with – Obama Administration Trustees and Trump Administration Trustees. How did that affect this year's process? Are you able to make the minutes from these meetings available to the public?
2. We've previously heard mention of the Trustees Working Group. I'm trying to get a better understanding of who this group is and what exactly it does. How big is the working group and who participates? Does each Trustee have an equal number of participants?

We would appreciate your responses to these questions by **August 11, 2017**. Please send your response to the attention of Amy Shuart, Staff Director, Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, 2018 Rayburn House Office Building, Washington, DC 20515. In addition to a hard copy, please submit an electronic copy of your response in Microsoft Word format to [MM.Russell@mail.house.gov](mailto:MM.Russell@mail.house.gov).

Thank you for taking the time to answer these questions for the record. If you have any questions concerning this request, you may reach Amy at (202) 225-9263.

Sincerely,

A handwritten signature in black ink that reads "Sam Johnson". The signature is written in a cursive style with a large, stylized "S" and a prominent "J".

Sam Johnson  
Chairman  
Subcommittee on Social Security

[Submissions for the Record follow:]

**Comments for the Record**  
**United States House of Representatives**  
**Committee on Ways and Means**  
**Social Security Subcommittee**  
**Hearing on Understanding Social Security's Solvency Challenge:**  
**Status of the Social Security Trust Funds**

Friday, July 14, 2017, 9:00 AM  
 2020 Rayburn House Office Building

By Michael G. Bindner  
 Center for Fiscal Equity

Chairman Johnson and Ranking Member Larson, thank you for the opportunity to submit my comments on this topic. These comments are an update to those provided last September, with material added regarding the President's desire to cut taxes and call it tax reform. We will leave it to invited witnesses to explain the difference between the future projections, except to say that both forecasts are required to be conservative. As the Economic Policy Institute found many years ago when attempts were being made to justify personal accounts in Social Security, there is truly no solvency problem if more realistic estimates are used. Of course, that relates to the system as a whole, not on how the Trust Fund is to be reimbursed, as we reiterate below. As usual, our comments are based on our four-part tax reform plan, which is as follows:

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure every American pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments. Heirs would also pay taxes on distributions from estates, but not the assets themselves, with distributions from sales to a qualified ESOP continuing to be exempt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age sixty.

### **Lessons from the Great Recession**

The 2008 Recession triggered by our continuing asset-based Depression has both temporary and permanent effects on the trust fund's cash flow. The temporary effect was a decline in revenue caused by a slower economy and the temporary cut in payroll tax rates to provide stimulus that has since been repealed, although the amount was added to the Trust Fund for later withdrawal, regardless of contributions not made.

The permanent effect is the early retirement of many who had planned to work longer, but because of the recent recession and slow recovery, this cohort has decided to leave the labor force for good when their extended unemployment ran out. This cohort is the older 77ers and 99ers who needed some kind of income to survive. The combination of age discrimination and the ability to retire has led them to the decision to retire before they had planned to do so, which impacts the cash flow of the trust fund, but not the overall payout (as lower benefit levels offset the impact of the decision to retire early on their total retirement cost to the system). In addition, it has been made easier for workers over 50 to retire on disability (as I have done), with many of us approved on the first try.

### **The Reagan-Pepper Compromise**

When Social Security was saved in the early 1980s, payroll taxes were increased to build up a Trust Fund for the retirement of the Baby Boom generation. The building of this allowed the government to use these revenues to finance current operations, allowing the President and his allies in Congress to honor their commitment to preserving the last increment of his signature tax cut.

This trust fund is now coming due, so it is entirely appropriate to rely on increased income tax revenue to redeem them. It would be entirely inappropriate to renege on these promises by further extending the retirement age, cutting promised Medicare benefits or by enacting an across the board increase to the OASI payroll tax as a way to subsidize current spending or tax cuts.

The cash flow problem currently experienced by the trust fund is not the trust fund's problem, but a problem for the Treasury to address, either through further borrowing – which will require continued comity on renewing the debt limit – or the preferable solution, which higher taxes for those who received the lion's share of the benefit's from the tax cuts of 1981, 1986, 2001, 2003 and 2010. Many also complain that this recovery is anemic. That is likely because too many upper-middle income taxpayers were given a permanent tax cut from 2001. Less savings and more taxation would boost spending on both transfer payments and government purchases – especially transfers to the retired and disabled.

What most threatens the Trust fund is to do a tax cut under the guise of tax reform, especially at the upper income levels. Upper income families were given preference in the 1980s when OASI taxes went up while the Reagan tax cuts were preserved. That should not happen again.

**The cost of delaying actions to address Social Security's fiscal challenges for workers and beneficiaries.**

Actions should be taken as soon as possible, especially when they must be phased in, as it is a truism that a little action early will have a larger impact later.

This should not be done, however, as an excuse to use regressive Old Age and Survivors Insurance payroll taxes to subsidize continued tax cuts on the top 20% of wage earners who pay the majority of income taxes. Retirement on Social Security for those at the lowest levels is still inadequate. Any change to the program should, in time, allow a more comfortable standard of living in retirement.

**The ultimate cause of the trust fund's long term difficulties is not financial but demographic.** Thus, the solution must also be demographic – both in terms of population size and income distribution. The largest demographic problem facing Social Security and the health care entitlements, Medicare and Medicaid, is the aging of the population. In the long term, the only solution for that aging is to provide a decent income for every family through more generous tax benefits.

The free market will not provide this support without such assistance, preferring instead to hire employees as cheaply as possible. Only an explicit subsidy for family size overcomes this market failure, leading to a reverse of the aging crisis.

We propose a \$1000 per month refundable child tax credit payable with wages as part of our proposal for a Net Business Receipts Tax. This will take away the disincentive to have kids a slow economy provides. Within twenty years, a larger number of children born translates into more workers, who in another decade will attain levels of productivity large enough to reverse the demographic time bomb faced by Social Security in the long term.

Such an approach is superior to proposals to enact personal savings accounts as an addition to Social Security, as such accounts implicitly rely on profits from overseas labor to fund the dividends required to fill the hole caused by the aging crisis. This approach cannot succeed, however, as newly industrialized workers always develop into consumers who demand more income, leaving less for dividends to finance American retirements. The answer must come from solving the demographic problem at home, rather than relying on development abroad.

This proposal will also reduce the need for poor families to resort to abortion services in the event of an unplanned pregnancy. Indeed, if state governments were to follow suit in increasing child tax benefits as part of coordinated tax reform, most family planning activities would be to increase, rather than prevent, pregnancy. It is my hope that this fact is not lost on the Pro-Life Community, who should score support for this plan as an essential vote in maintaining a perfect pro-life voter rating.

This is not to say that there is no room for reform in the Social Security program. Indeed, comprehensive tax reform at the very least requires calculating a new tax rate for the Old Age and Survivors Insurance program. My projection is that a 6.5% rate on net income for employees and employers (or 13% total)

will collect about the same revenue as currently collected for these purposes, excluding sums paid through the proposed enhanced child tax credit. This calculation is, of course, subject to revision.

While these taxes could be merged into the net business income/revenue tax, VAT or the Fair Tax as others suggest, doing so makes it more complicated to enact personal retirement accounts. My proposal for such accounts differs from the plan offered in by either the Cato Institute or the Bush Commission (aka the President's Commission to Save Social Security).

As I wrote in the January 2003 issue of Labor and Corporate Governance, I would equalize the employer contribution based on average income rather than personal income. I would also increase or eliminate the cap on contributions. The higher the income cap is raised, the more likely it is that personal retirement accounts are necessary.

A major strength of Social Security is its income redistribution function. I suspect that much of the support for personal accounts is to subvert that function – so any proposal for such accounts must move redistribution to account accumulation by equalizing the employer contribution.

I propose directing personal account investments to employer voting stock, rather than an index funds or any fund managed by outside brokers. There are no Index Fund billionaires (except those who operate them). People become rich by owning and controlling their own companies. Additionally, keeping funds in-house is the cheapest option administratively. I suspect it is even cheaper than the Social Security system – which operates at a much lower administrative cost than any defined contribution plan in existence.

Safety is, of course, a concern with personal accounts. Rather than diversifying through investment, however, I propose diversifying through insurance. A portion of the employer stock purchased would be traded to an insurance fund holding shares from all such employers. Additionally, any personal retirement accounts shifted from employee payroll taxes or from payroll taxes from non-corporate employers would go to this fund.

The insurance fund will serve as a safeguard against bad management. If a third of shares were held by the insurance fund than dissident employees holding 25.1% of the employee-held shares (16.7% of the total) could combine with the insurance fund held shares to fire management if the insurance fund agreed there was cause to do so. Such a fund would make sure no one loses money should their employer fail and would serve as a sword of Damocles' to keep management in line. This is in contrast to the Cato/ PCSSS approach, which would continue the trend of management accountable to no one. The other part of my proposal that does so is representative voting by occupation on corporate boards, with either professional or union personnel providing such representation.

The suggestions made here are much less complicated than the current mix of proposals to change bend points and make OASI more of a needs based program. If the personal account provisions are adopted, there is no need to address the question of the retirement age. Workers will retire when their dividend income is adequate to meet their retirement income needs, with or even without a separate Social Security program.



No other proposal for personal retirement accounts is appropriate. Personal accounts should not be used to develop a new income stream for investment advisors and stock traders. It should certainly not result in more “trust fund socialism” with management that is accountable to no cause but short term gain. Such management often ignores the long-term interests of American workers and leaves CEOs both over-paid and unaccountable to anyone but themselves.

Progressives should not run away from proposals to enact personal accounts. If the proposals above are used as conditions for enactment, I suspect that they won’t have to. The investment sector will run away from them instead and will mobilize their constituency against them. Let us hope that by then workers become invested in the possibilities of reform.

All of the changes proposed here work more effectively if started sooner. The sooner that the income cap on contributions is increased or eliminated, the higher the stock accumulation for individuals at the higher end of the age cohort to be covered by these changes – although conceivably a firm could be allowed to opt out of FICA taxes altogether provided they made all former workers and retirees whole with the equity they would have otherwise received if they had started their careers under a reformed system. I suspect, though, that most will continue to pay contributions, with a slower phase in – especially if a slower phase in leaves current management in place.

One new wrinkle is that I would also put a floor in the employer contribution to OASI, ending the need for an EITC – the loss would be more than up by gains from an equalized employer contribution – as well as lowering the ceiling on benefits. Since there will be no cap on the employer contribution, we can put in a lower cap for the employee contribution so that benefit calculations can be lower for wealthier beneficiaries, again reducing the need for bend points.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Contact Sheet

Michael Bindner  
Center for Fiscal Equity  
14448 Parkvale Road, Suite 6  
Rockville, MD 20853  
301-871-1395 landline  
240-810-9268 cell  
No fax  
[fiscalequitycenter@yahoo.com](mailto:fiscalequitycenter@yahoo.com)

Social Security Subcommittee  
Hearing on Understanding Social Security's Solvency Challenge:  
Status of the Social Security Trust Funds  
Friday, July 14, 2017, 9:00 AM  
2020 Rayburn House Office Building

This submission is made on behalf of no clients, persons and/or organizations on whose behalf the witness appears.



House Ways and Means Subcommittee on Social Security – Hearing on Social Security’s Solvency Challenge: Status of the Social Security Trust Funds

Statement for the Record

David Barnes, Director of Policy Engagement for Generation Opportunity

July 14, 2017

Chairman Johnson, Ranking Member Larson, members of the subcommittee, thank you for the opportunity to submit a statement regarding the topic of your hearing on Social Security’s Solvency Challenge.

Generation Opportunity represents young activists across the country, and the single biggest threat to our personal financial futures is the federal debt crisis being driven in part by Social Security.

Many elected officials fear honest discussion of this topic, so it is welcome news to see this subcommittee taking the problem seriously and jump-starting a conversation about how to fix the program for future generations, including mine.

When Social Security was created in 1935, the total cost of the program amounted to 0.3 percent of the federal budget, and less than one-half of one percent of national GDP. That’s because, back then, America was a much different place. For example, average life expectancy was 64, and only 24 percent of women were in the workforce.

Today, average life expectancy is age 79, and 73 percent of *young* women are now in the workforce. However, despite these and other changes, Social Security is still applying 80-year-old economic assumptions, making it a program unfit for the 21st century.

Social Security has now become the single largest federal program, costing 5 percent of our country’s total GDP while devouring 24 percent of all yearly taxpayer dollars. At a time when our national debt is rapidly approaching \$20 trillion, Social Security is projected to cost more than \$13 trillion over the next decade.

In 2017 alone, the federal government will spend nearly one trillion dollars on Social Security, more than it spends on the military, education, housing, food, transportation, energy, and the environment combined. By 2027, the program is expected to grow our country’s deficit by \$356 billion.

Simply put, Social Security is failing, and unless changes are made, the program will be unable to pay full benefits starting just 13 years from now.

Some claim that the solution to preserving Social Security is to raise more taxes, but history shows that doesn't work. In fact, since Social Security was created, payroll taxes have been raised 20 times. 20 TIMES! Yet, the program is still headed towards insolvency.

Fixing Social Security isn't about throwing more money at the problem – it's about structurally reforming the program so it works better for current retirees and is still around for my generation when we reach retirement age. Otherwise, without serious change, young people must be given the choice to opt-out.

My generation is proving that it knows how to responsibly plan for retirement, with studies showing that nearly four out of five of us save a portion of our paychecks. Technology plays a large role in helping us do this, as over 70 percent of young people now use mobile apps to manage their retirement savings. It's time that the federal government caught up and offered a fresh, flexible policy approach to retirement security that gives young people greater control over our money, our savings, and our futures.

On behalf of tens of thousands of activists and many more young people across the country, I implore members of the subcommittee to work together in a bipartisan way to structurally reform Social Security and prevent our growing federal debt from destroying the future of my generation. Saving for our own retirement is well within our own control, but the fate of the federal budget is squarely in yours.

Chairman Johnson, we thank you again for your leadership and the opportunity to offer comments on this important matter.

Sincerely,

David Barnes  
Director of Policy Engagement  
Generation Opportunity



## Written Statement of the Strengthen Social Security Coalition

U.S. House Committee Ways and Means Subcommittee on Social Security  
Hearing on "Social Security's Solvency Challenge: Status of the Social Security Trust Funds"  
July 14, 2017

The Strengthen Social Security Coalition is a broad-based coalition of over 320 national and state organizations representing 50 million Americans, including seniors, workers, women, people with disabilities, children, young adults, veterans, people of low income, people of color, communities of faith, and others. We stand together in support of Social Security, a promise made to Americans of all generations. Social Security insures virtually all working families against lost income in the event of death, disability, or old age. It currently pays benefits to over 61 million Americans.

The 2017 Old Age, Survivors, and Disability Insurance Trustees Report (hereinafter, "Trustees Report") demonstrates that Social Security is fully affordable, now and in the future. It reveals that the question of whether to expand or cut Social Security is a matter of values, plain and simple.

Now in its 82<sup>nd</sup> year, our Social Security system has allowed generations of working Americans to earn critical wage insurance protections for themselves and their families, with incredible success. This success should come as no surprise, given that Social Security is conservatively managed (with administrative expenses accounting for less than one penny of every dollar spent), and prudently administered. Indeed, to help lawmakers ensure that Social Security's promises to working Americans are kept, Social Security's trustees are required to report annually on the financial health and sustainability of the program.

**What the 2017 Trustees Report Says about Social Security's Affordability**

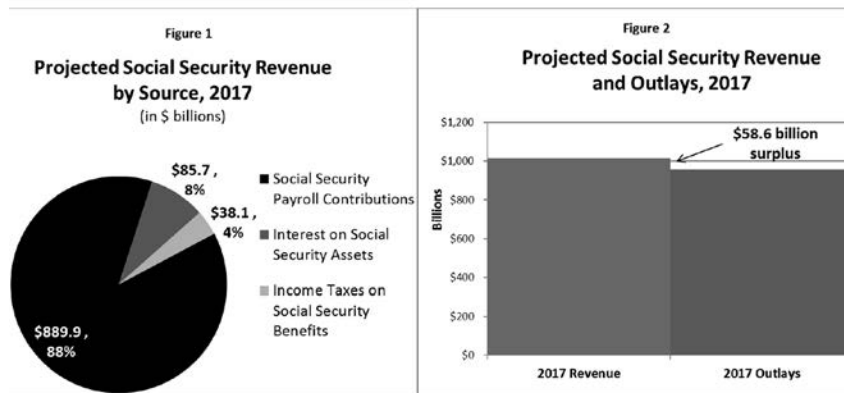
This year's Trustees Report projects Social Security's large and growing reserve to be roughly \$2.9 trillion in 2017, growing to about \$3 trillion by around 2021. It shows that Social Security is fully funded for the next decade, around 93 percent funded for the next 25 years, around 87 percent funded over the next 50 years, and around 84 percent funded over the next 75 years. Without a single penny of additional revenue, Social Security will have sufficient income and assets to pay all administrative costs and benefits in full for around one and a half decades, and around three-quarters of all benefits and associated administrative costs thereafter. Moreover, like the 2016 report, this year's report shows that, with modest legislated increases in revenue, Social Security will be able to pay all scheduled benefits for the foreseeable future.

The report also shows that income to Social Security from all sources will exceed all expenditures in 2017, which is why the program's reserves will continue to grow. Social Security has three sources of revenue:

- 1) wage contributions from employees, matched by employers;
- 2) investment earnings on Social Security's U.S. Treasury bond holdings (which have the same legal standing and status as other interest-bearing Treasury bonds issued by the government);
- and

3) dedicated revenue from the inclusion of a portion of Social Security benefits in income for purposes of determining income taxes owed.

It is sometimes reported that Social Security is paying out more money in benefits than it is collecting in income, but that is incorrect. This claim counts only Social Security's income from payroll and wage contributions, disregarding one or both of its other two dedicated sources of revenue. While viewing Social Security's revenues in this manner suggests that it is in "cash deficit," this term has no legal meaning with regard to Social Security's finances. Indeed, so-called cash deficits have happened 29 times since 1957, without ever affecting the system's ability to pay benefits. This is because Social Security's revenues, from all sources, have always exceeded its costs—and will exceed them again in 2017. Bottom line: as the following chart shows, when income from all of Social Security's dedicated revenue sources is counted, its 2017 revenue will surpass its outlays.



Source: 2017 Social Security Trustees Report, Table IV.A3, 2016.

Indeed, the Trustees Report shows that Social Security is fully affordable. At its most expensive, in 2095, Social Security will cost just 6.17 percent of GDP. That is considerably lower, as a percentage of GDP, than most other industrialized countries spend on their counterpart programs today, as the following chart shows. (In 2017, Social Security is projected to constitute just 5 percent of GDP.)



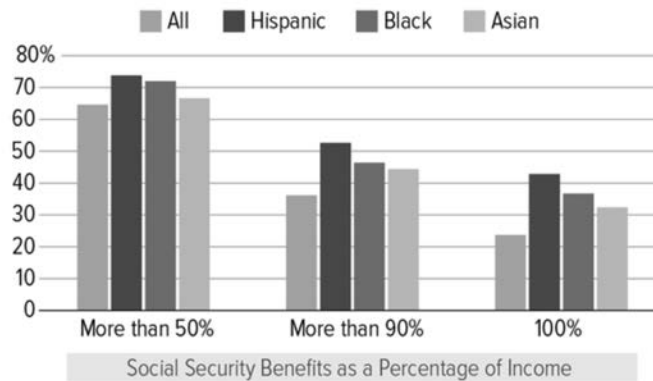
**Solvency Is Means to the Important Aim of Providing Working Families with Basic Economic Security**

As important as restoring Social Security to long-range actuarial balance is, it is essential to remember that doing so is simply a means to the end of providing America's families with basic economic security. Three in 5 seniors receiving Social Security rely on its modest benefits for half or more of their incomes. One third relies on those modest benefits for virtually all of their income.

It is of even greater importance to women and to racial and ethnic minorities, as the following chart shows:

## Most Elderly Beneficiaries Rely on Social Security for the Majority of Their Income

Percentage of elderly beneficiaries



Note: Data are for beneficiaries age 65 or older. Income excludes noncash benefits such as SNAP (food stamps) or savings that might be available to supplement monthly income.

Source: Social Security Administration, 2012 data.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

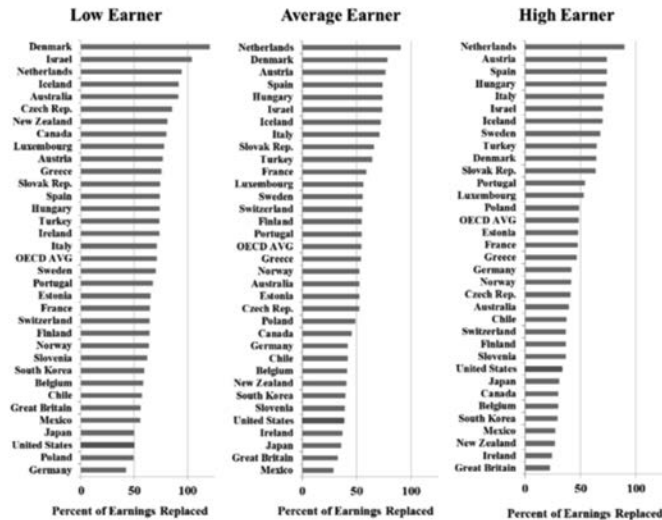
Social Security lifts 22 million Americans – including over a million children – out of poverty and lessens the depth of poverty for millions more.

These vital Social Security benefits are extremely modest by virtually any standard. In absolute terms, the average Social Security benefit for all beneficiaries in May, 2017 was \$1,248.67, or \$14,984.04, on an annualized basis. That is less than full time, minimum wage work. It is only slightly above the official federal poverty line, and well below the amount needed to satisfy the Elder Economic Index, a sophisticated measure of the income necessary to meet bare necessities.

Social Security's benefits are also extremely low, as compared to the retirement benefits of other nations, as the following chart reveals:



Social Security Replacement Rates in OECD Countries by Earnings Level



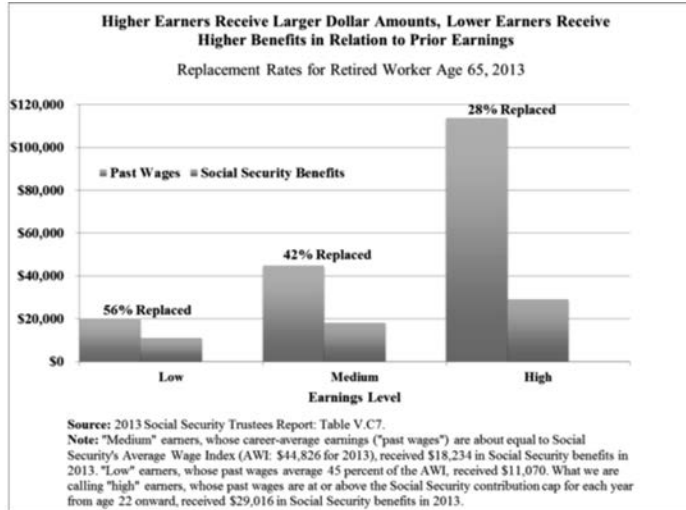
Source: OECD Pensions at a Glance, 2013.

Note: These calculations model future replacement rates for workers entering the labor market in 2012 at age 20. They refer to single, full-career, male workers; rates for women are identical except in 5 countries (Australia, Chile, Israel, Mexico, Switzerland), where they differ due to a lower female pension eligibility age and use of sex-specific mortality. Low earners earn half of the average earner (\$47,600 in 2012). High earners earn 50% more than the average earner.

As informative as Social Security's absolute benefit size and its size compared to other nations' benefits are, there is a much more important measure. The best measure of Social Security's adequacy is the proportion of pay replaced by benefits, since replacing lost wages is the goal of the program.

The idea behind Social Security is that it allows workers and their families to maintain their standards of living if and when wages are lost as the result of death, old age, or a serious and permanent disability that precludes substantial work. Experts estimate that workers and their families need about 70 to 80 percent of pre-retirement pay to maintain their standards of living. Lower earners, who have less discretionary income, need higher percentages; higher earners, with more discretionary income and other assets, need somewhat less.

Social Security does not come close to providing sufficient income to meet the goal of maintaining standards of living. It appropriately replaces a larger proportion of preretirement pay of workers who have lower wages, but the benefits are still inadequate, as the following chart illustrates:



It is important to note that many retirees do not have as high replacement rates as shown in the chart, because they retire and claim benefits before age 65. Moreover, as modest as these rates are, they will be declining in the future. They have been stable for decades, but are currently declining as the result of benefit cuts that are now being phased in, and increasing Medicare premiums, which are directly deducted from Social Security checks for many beneficiaries. In 1986, workers with average earnings first accepting benefits at age 65 received a Social Security benefit that replaced 41 percent of their preretirement pay, net of Medicare premiums. For equivalent workers reaching age 65 in 2005, only 39 percent of preretirement pay was replaced. For those turning age 65 in 2030, that percentage falls to just 32 percent. When one accounts for taxation of Social Security benefits as well, which is an effective cut in benefits, that replacement rate in 2030 drops to 29 percent.

#### Expanding Social Security Is a Fully Affordable Solution to Several Serious Challenges

Expanding Social Security would help everyone. It is a solution to a number of challenges facing the nation. We face a looming retirement income crisis where most workers will be unable to retire without a drastic reduction in their standards of living. Social Security is the most universal, secure, fair, and efficient source of retirement income that we have, providing a guaranteed, inflation-protected source of income that one will never outlive. Expanding Social Security is a common-sense solution to that looming crisis.

Increasing retirement benefits automatically increases disability and survivor benefits, because they are based on the same benefit formula. Those benefits can and should be increased for current

beneficiaries, as well as all future beneficiaries. Expanding Social Security would help ease the financial pressure on working families. Adding new benefit protections, such as paid family leave and paid sick days, would do even more to meet the goal of ensuring economic security for working Americans.

Expanding Social Security is a solution to other challenges, as well. Americans are rightly concerned about growing income and wealth inequality. Expanding Social Security and requiring millionaires and billionaires to pay their fair share will begin to put brakes on the dangerous, and rapidly growing, upward redistribution of incomes and wealth.

Recognizing that Social Security is a solution to our looming retirement crisis and other challenges facing the nation, serious analysts and a growing number of policymakers have advanced responsible, fully-funded proposals, which expand Social Security, without cuts, while restoring it to long range balance. Indeed, nearly 20 Social Security expansion bills have been introduced in the House and Senate just since 2015. In that regard, the Social Security 2100 Act was recently introduced by Rep. John Larson (D-CT-01), and has 162 cosponsors. Rep. Larson's bill provides important benefit improvements, including across-the-board benefit increases for all current and future beneficiaries, an increased special minimum benefit, so no one retires into poverty after a lifetime of work, and a more accurate cost-of-living index, so these vital but modest benefits do not erode in value over time. The bill provides these important improvements while, according to Social Security's actuaries, ensuring that Social Security can pay all benefits in full and on time for the next three-quarters of a century and beyond. (A list of other expansion legislation is appended to this statement.)

#### **Overwhelming Majority of Americans, Despite Party Affiliation, Support Expanding, Not Cutting, Social Security**

In addition to being extremely wise policy, expanding Social Security represents the will of the American people. As divided as the American people are over many issues, we are not divided about our deep support for Social Security. Support for Social Security expansion, and opposition to benefit reductions, cuts across ideological divides. These [views](#) are shared by Republicans, Independents, and Democrats. They are held by self-identified Tea Partiers and union households. A [Pew poll](#) conducted during last year's presidential primaries discovered that supporters of every candidate running overwhelmingly oppose Social Security cuts.

The Democratic Party has recognized the importance of expanding Social Security benefits. The 2016 Democratic platform [stated](#):

*We will fight every effort to cut, privatize, or weaken Social Security, including attempts to raise the retirement age, diminish benefits by cutting cost-of-living adjustments, or reducing earned benefits. Democrats will expand Social Security.*

Consistent with that pledge, around 90 percent of all Democratic Senators are on record in support of expanding, and not cutting Social Security.

The Coalition urges the Republican Party to join the Democrats in supporting expanding, and not cutting Social Security, while restoring the program to long range actuarial balance. There are numerous ways to increase Social Security's revenue without unduly burdening anyone. If the two Parties joined together to do what the American people overwhelmingly support – expanding, and not cutting Social Security. While allocating the cost in a way that requires the wealthiest among us to pay their fair share, today's beneficiaries will receive a much-deserved increase in their modest benefits—and next year's Trustees Report will show that Social Security is in balance through the end of the 21<sup>st</sup> century and beyond.